

**To the Mayor and Members of the City Council****May 19, 2015****Page 1 of 2****SUBJECT: INSURANCE FUNDS RESERVE POLICIES AND RE-STRUCTURING OF FUNDS**

On April 21, 2015, the Financial Management Services Department completed a presentation at Pre-Council regarding the recommended reserve policies for the Insurance Funds. As discussed in the presentation, the Insurance Funds comprise a portion of the City's Internal Service Funds, providing the ability for our organization to account, track, record, and report transactions primarily attributable to internal operations.

The presentation included the following recommendations regarding the Reserve Policy for Insurance Funds:

- Risk Management (Three Part Test):
 1. Cash cannot be negative
 2. No component of the equity section of the balance sheet can be negative (net position)
 3. Unrestricted Net Position between 40% and 50% of annual operating expenses
- Workers' Compensation and Unemployment (Three Part Test):
 1. Cash cannot be negative
 2. No component of the equity section of the balance sheet can be negative (net position)
 3. Unrestricted Net Position between 8% and 10% of annual operating expenses
- Group Health (Three Part Test):
 1. Cash cannot be negative
 2. No component of the equity section of the balance sheet can be negative (net position)
 3. Unrestricted Net Position between 10% and 20% of annual operating expenses (both funds)

Subsequent to the presentation, staff has further contemplated the fund structure and we are recommending changes to the structure of the Insurance Funds as follows:

1. The Unemployment Fund will be closed and all Unemployment claims will be paid out of the associated Departments' budget rather than making transfers to the Unemployment Compensation Fund and subsequently paying all claims out of that fund.
2. The Risk Management Fund and the Workers' Compensation Fund will be combined into one fund which will be called the Risk Financing Fund.



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By completing the above activities, the City will reduce the number of funds we maintain on the general ledger – an industry best practice. In addition, we will streamline the budget and financial reporting processes.

As part of these changes, staff recommends the following updates to the proposed reserve levels for the new fund structure (Group Health and Risk Financing):

1. A minimum level of Working Capital in all Insurance Funds between two and three months of regular, on-going Operating Expenses (including transfers out). This calculation shall not include Non-Recurring Items.
2. The City will strive to not have a negative Unrestricted Net Position in any Insurance Fund.

The suggested changes in the reserve calculation will allow the City to evaluate reserves on a basis consistent with our newly revised Governmental Funds policy.

If you have any questions, please call Aaron Bovos, Chief Financial Officer, at 817-392-8517

David Cooke
City Manager